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NEBRASKA'S FARMLAND MARKET IN PERSPECTIVE

It is no news to most Nebraskans that agriculture is undergoing tough economic times. The chant of the auctioneer has been heard more frequently in rural Nebraska this spring than at any time since the 1930s. The price of farm real estate has trended downward. This article examines recent farm real estate market conditions, and discusses possible future trends.

CHARTING THE RECENT HISTORY

The market for farmland during the 1970s has been described as "optimistic growth". Almost without interruption, the average value of Nebraska farmland climbed rapidly. Price levels at the end of the decade were typically more than two and one half times those of 1970. This was particularly dramatic, as many areas had taken nearly forty years to rebound from per acre farmland value losses of the 1920s and 1930s. In virtually every area of the state, land boom conditions in the 1970s were pervasive and unprecedented; farmland values rose at twice the general rate of inflation.

Farmers and other landowners enjoyed a rapid buildup of paper wealth as value increases swelled the asset side of their balance sheets. Concurrently, the sector's dependence on debt capital expanded greatly. Total agricultural debt doubled during the last half of the 1970s, in large part because the land boom depended heavily upon debt capital.

The 1980s have been a period of sobering economic change for agriculture. Nebraska's farm income during the 1980s has been less than two-thirds the 1970s average in constant dollar terms. Drought and other adverse weather conditions, depressed prices, and extremely high interest rate levels have sapped income levels and created extreme financial stress for many.

In 1981, the market for agricultural land began to soften. For three consecutive years, farm real estate values have dropped. (See Figure 1.) Annual declines in Nebraska for the years 1981 to 1983 averaged 3.9 percent, 10.8 percent, and 8.4 percent respectively. By February 1, 1984, the average total decline from the peak levels of 1980 was about 22 percent. As illustrated by the dotted line in Figure 1, this indicates that February, 1984 values were comparable to the levels of five years ago in nominal terms. Moreover, when adjusted for the general rate of inflation and expressed in constant dollars, 1984 farmland values in Nebraska are at levels of ten years ago. In other words, a significant amount of the capital gains which had built on paper during the preceeding boom period has eroded during the first half of the 1980s. Since real estate is an important source of credit collateral for the sector, this land value turnabout has magnified the financial stress which many individuals face today.

FARMLAND VALUE TRENDS DURING 1983

Each year, the UN-L Department of Agricultural Economics conducts a statewide farm real estate survey. Questionnaires are mailed each January to individuals across the state who are knowledgeable about farm real estate market conditions in their area. These individuals provide estimates of current value of various types of agricultural land in their area. These estimates are the basis of a continuing land value series by Crop Reporting District (Figure 2).

For the twelve-month period ending February 1, 1984, Nebraska farmland value declines ranged from about six percent in the South district to nearly eleven percent in the Central district (Table 1). Enrollment in the PIK program was relatively high in the South district and may have contributed to the smaller decline during 1983 in those counties. Grazing land, which is a very significant portion of the Central district, reportedly dropped substantially and influenced the all-land average in that district. Severe drought conditions in the Southeast contributed to an estimated ten percent decline in that area of the state. No area was spared from value declines for virtually all types of agricultural land; only the magnitude varied.

On average, dry and irrigated cropland was off seven to eight percent from year-earlier levels, although regional differences did exist. Apparently, the impact of the PIK program was insufficient to stabilize cropland values during 1983.

Statewide, grazing land values experienced larger percentage declines during the twelve-month period ending February 1, 1984. In many areas, estimated values were off more than ten percent from year-earlier levels. Obviously, chronically low returns to cattle producers in recent years have softened the demand for range and pasture land.

In summary, 1983 was not a turnaround year for Nebraska's farmland market. Land values declined an average of 8.4 percent from February 1, 1983 to February 1, 1984. A decisive decline was apparent for all types of Nebraska farmland, with prices dropping on $150 per acre grazing land as well as on $2,000 per acre irrigated land. A substantial portion of appreciation which accrued during the 1970s has vanished.

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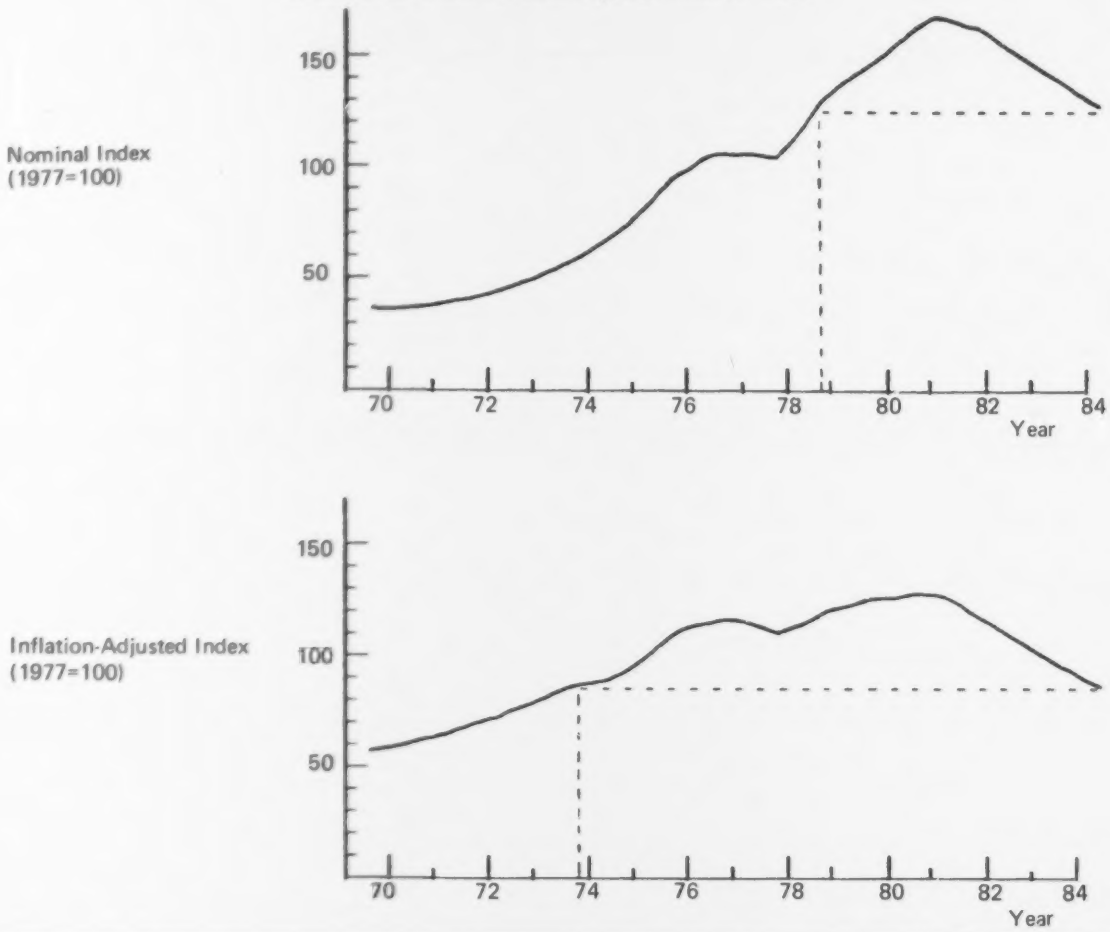
Figure 1
Nebraska Farmland Values 1970 to 1984
Nominal Index and Inflation-Adjusted Index of Value



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1984 TRENDS

The land market has been volatile in recent years; the first half of 1984 was no exception. A relatively high incidence of sales due to financial stress during the early months of 1984 led to further slippage in farmland values since February 1st. According to the national land value survey conducted each April by USDA, Nebraska recorded one of the largest percentage declines of any state from April 1983 to April 1984. USDA preliminary estimates suggest that Nebraska farmland values declined about twelve to thirteen percent over that twelve-month period. While the USDA survey series is not entirely compatible with the Nebraska series, the two do tend to track closely over time. This relatively greater decline shown by USDA's April 1st survey suggests further erosion of values since February 1, 1984. In fact, current levels (June 1984) may be about four percent below the February 1st values recorded in Table 1.

ARE WE APPROACHING THE FLOOR?

The psychological effect of a declining land market can be influential. Just as "bullishness" can be, for a time, self-fulfilling on the appreciating side, so can "bearishness" be on the depreciating side. The first half of 1984 will be earmarked as pessimistic for Nebraska agriculture. Yet, encouraging signs suggest that land values are ending their "free fall" and approaching a more stable state. The most convincing evidence is the current level of cash rents to market value.

While farmland values have fallen as much as 25 percent from peak levels of 1980, average cash rental rates for farmland have remained relatively stable. As a result, the rent-to-value ratio has climbed steadily over the past three years. On average, the 1984 rent-to-value ratios on irrigated cropland, dry cropland, and grazing land were 8.2 percent, 7.4 percent, and 5.8 percent respectively--the highest these ratios have been since the mid-1970s.

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This implies current values are more reflective of short term earnings potential than those of 1980, when buyers incorporated anticipated earnings growth and rapid land appreciation into their bid prices. For many types of land purchased today with conventional financing, the current levels of cash rents are sufficient to cover mortgage payments and other expenses of ownership and generate a modest, positive return to owner equity. As more potential buyers realize this, the economic incentives for purchase will be enhanced. Thus, the demand side of the market may soon respond with renewed enthusiasm.

A second factor is the substantial adjustment in agriculture that has already taken place. Unless the agricultural economy remains in a chronically low income state, the incidence of forced sales activity should subside.

Economic conditions still remain difficult; the timing and magnitude of economic recovery remains probabilistic. With a high degree of economic uncertainty, it would be presumptuous to predict a quick reversal of land value trends. Nevertheless, it does appear, with adjustment in values over the past forty-two months, that prices have moved closer to a land value floor, where more stable market conditions may be forthcoming.

BRUCE B. JOHNSON*

*Associate Professor of Agricultural Economics, Institute of Agriculture and Natural Resources, University of Nebraska-Lincoln.

Table I
AVERAGE REPORTED VALUE OF NEBRASKA FARMLAND FOR DIFFERENT TYPES OF LAND BY CROP REPORTING DISTRICT, FEBRUARY 1, 1983 AND FEBRUARY 1, 1984

Type of Land And Year Reported	Crop Reporting District								
	Northwest	North	Northeast	Central	East	Southwest	South	Southeast	STATE[2]
	(dollars per acre)								
Dryland Cropland (no irrigation potential)									
1984	379	300	779	416	1,129	444	653	840	632
1983	387	321	864	450	1,204	469	664	939	681
Percent change:	-2.1	-6.5	-9.8	-7.6	-6.2	-5.3	-1.7	-10.5	-7.2
Dryland Cropland (irrigation potential)									
1984	507	441	911	638	1,349	631	1,050	1,069	905
1983	563	462	975	680	1,462	654	1,175	1,160	979
Percent change:	-9.9	-4.5	-6.6	-6.2	-7.7	-3.5	-10.4	-7.8	-7.6
Grazing Land (tillable)									
1984	187	233	500	325	661	285	519	521	289
1983	198	234	571	405	789	315	555	589	315
Percent change:	-5.6	-0.4	-12.4	-19.7	-16.2	-9.5	-6.5	-11.5	-8.2
Grazing Land (nontillable)									
1984	134	152	350	248	455	168	328	384	184
1983	151	169	375	283	511	181	339	460	205
Percent change:	-11.3	-10.6	-6.7	-12.4	-11.0	-7.2	-3.2	-16.5	-10.2
Hayland									
1984	283	247	497	295	568	329	369	463	296
1983	290	286	509	408	658	344	375	496	331
Percent change:	-2.4	-13.6	-2.4	-27.7	-13.7	-4.4	-1.6	-6.6	-10.6
Gravity Irrigated									
1984	1,269	1,020	1,429	1,613	1,838	1,250	1,762	1,639	1,601
1983	1,361	1,000	1,430	1,798	1,969	1,412	1,872	1,854	1,737
Percent change:	-6.8	+1.2	-0.1	-10.3	-6.6	-11.5	-5.9	-11.6	-7.8
Center Pivot Irrigated[1]									
1984	800	698	1,130	969	1,655	827	1,350	1,465	1,049
1983	847	769	1,217	1,016	1,727	926	1,391	1,643	1,130
Percent change:	-5.5	-9.2	-7.1	-4.6	-4.2	-10.7	-2.9	-10.8	-7.2
All Land Average[2]									
1984	318	229	829	654	1,341	442	990	989	588
1983	343	248	890	734	1,475	480	1,057	1,099	642
Percent change	-7.3	-7.7	-6.8	-10.9	-9.1	-7.9	-6.3	-10.0	-8.4

[1]Value of pivot not included in per acre value.
[2]Weighted averages.
Source: 1983 and 1984 Nebraska Farm Real Estate Market Surveys.

Review and Outlook

Nebraska's economy continued to expand in February; the net physical volume index increased a vigorous 2.6 percent on a month-to-month basis. The Bureau of Business Research's volume index stood at 135.4 (1967=100) in February 1984, about 2.0 percent above the 1983 level. The index is up 12.8 percent from the recessionary low of 120.0 reached in October 1982. The Nebraska economy has made limited gains since the fourth quarter of 1982.

Cash farm marketings were $433 million in February 1984, down 25.0 percent from the year previous. Prices received by Nebraska producers were up 5.3 percent February-to-February. It is interesting to note that prices received by all farmers were up 9.1 percent during the same interval.

The non-agricultural sector of Nebraska's economy rose 0.6 percent January-February 1984. Construction was up 3.0 percent on a month-to-month basis, while manufacturing declined 1.8 percent. The distributive trade component grew 1.3 percent. Government recorded a 0.4 percent increase.

The construction sector recorded an increase in February; this sector remains, however, well below previous levels. Output

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

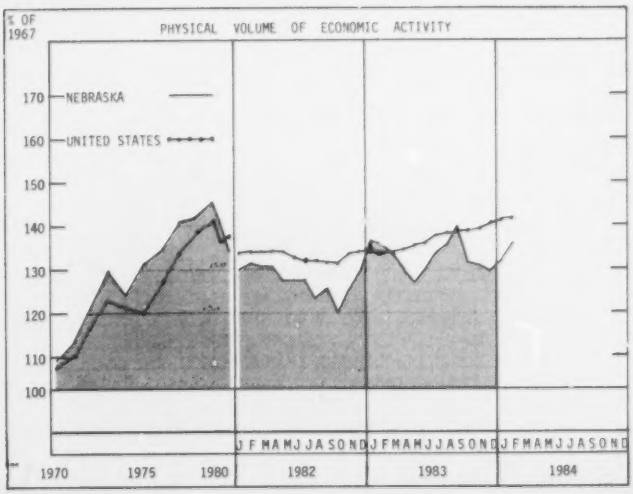
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

February 1984	Current Month as Percent of Same Month Previous Year		1984 Year to Date as Percent of 1983 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	104.7	110.4	103.5	110.0
Agricultural	67.8	84.7	62.8	83.8
Nonagricultural	111.9	111.2	111.4	110.9
Construction	142.7	120.2	137.2	116.7
Manufacturing	117.5	113.9	117.4	114.0
Distributive	108.7	110.6	108.2	110.3
Government	114.1	106.3	113.6	106.3
Physical Volume	99.4	105.8	98.1	105.6
Agricultural	64.4	77.6	58.7	75.5
Nonagricultural	107.1	106.9	106.7	106.7
Construction	139.7	117.7	134.2	114.2
Manufacturing	114.3	111.3	114.2	111.4
Distributive	104.2	106.0	103.8	105.8
Government	105.3	99.9	104.8	99.9

2. CHANGE FROM 1967

	Percent of 1967 Average	
Indicator	Nebraska	U.S.
Dollar Volume	388.1	409.8
Agricultural	311.4	307.0
Nonagricultural	399.5	413.1
Construction	268.8	388.8
Manufacturing	354.9	319.0
Distributive	427.1	467.2
Government	413.5	415.8
Physical Volume	135.4	141.5
Agricultural	119.8	116.7
Nonagricultural	137.7	142.3
Construction	79.1	114.4
Manufacturing	143.2	126.4
Distributive	139.6	152.7
Government	152.0	146.3

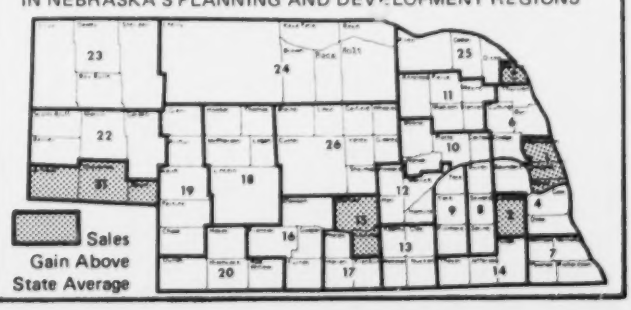


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number and City	City Sales	Sales in Region	
	Feb. '84 as percent of Feb. '83	Feb. '84 as percent of Feb. '83	84 to date as percent of 83 to date
The State	107.5	110.3	110.2
1 Omaha	105.6	108.7	114.4
Bellevue	106.8		
Blair	109.1		
2 Lincoln	111.5	115.1	112.8
3 So. Sioux City	112.4	106.8	108.9
4 Nebraska City	96.1	100.4	101.8
6 Fremont	109.6	105.6	106.7
West Point	98.9		
7 Falls City	102.7	103.7	100.7
8 Seward	111.5	107.3	107.9
9 York	103.0	104.7	104.2
10 Columbus	113.5	105.5	101.7
11 Norfolk	100.8	98.5	95.0
Wayne	78.9		
12 Grand Island	102.6	103.3	104.0
13 Hastings	101.8	103.3	105.9
14 Beatrice	110.8	104.0	100.5
Fairbury	76.0		
15 Kearney	121.0	115.7	110.2
16 Lexington	106.5	100.7	99.9
17 Holdrege	104.8	101.0	100.9
18 North Platte	104.7	104.1	104.3
19 Ogallala	101.9	107.3	104.2
20 McCook	117.5	112.6	106.1
21 Sidney	129.6	115.2	109.5
Kimball	104.0		
22 Scottsbluff/Gering	96.0	101.3	102.6
23 Alliance	105.1	106.2	101.8
Chadron	114.6		
24 O'Neill	91.6	93.9	99.6
25 Hartington	91.1	87.4	94.2
26 Broken Bow	88.6	92.3	96.4

State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Region totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.

1984 YEAR TO DATE AS PERCENT OF 1983 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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from Nebraska's manufacturing sector fell 1.8 percent on a month-to-month basis. The index in February 1984 stood at 143.2. One year ago it was 125.3, while two years ago (February 1982) the index was 149.3. The index suggests manufacturing output has remained essentially unchanged since August 1983.

The distributive trade component of Nebraska's economy was up 1.3 percent on a month-to-month basis. The index is about 2.0 percent above February 1983 levels and 13.0 percent above February 1982 levels.

Retail sales in Nebraska were markedly below the national level in February. Retails sales in Nebraska were up 10.3 percent (unadjusted for price changes), while national retail sales were up 15.2 percent. When adjustments are made for price changes, Nebraska's retail sales were up 4.8 percent, while national retail sales were up 10.5 percent.

Nebraska motor vehicle sales rose 32.5 percent, unadjusted for price changes, in February compared with one year previous. Dollar volume of motor vehicle sales was $80.6 million in February 1984, compared with $60.8 million in February 1983. When adjustments for price changes are made, Nebraska's motor vehicle sales increased 18.2 percent.

Communities with gains above the state average in their city business indexes include: Sidney (up an impressive 14.8 percent); Kearney, 9.8 percent; Columbus, 8.3 percent; Bellevue, 7.9 percent; South Sioux City, 7.1 percent; Omaha, 5.1 percent; Lincoln, 4.5 percent; and Blair, 4.3 percent. The state average was 3.6 percent; all of the communities above recorded larger gains in their respective city business indexes.

Sidney continues to benefit from construction activity and a strong retail sales base. Kearney's strength is also associated with retail sales and increased building activity, while Columbus has recorded impressive gains in retail sales with a limited increase in building activity. Bellevue continues to benefit from improved retail sales and strong construction gains.

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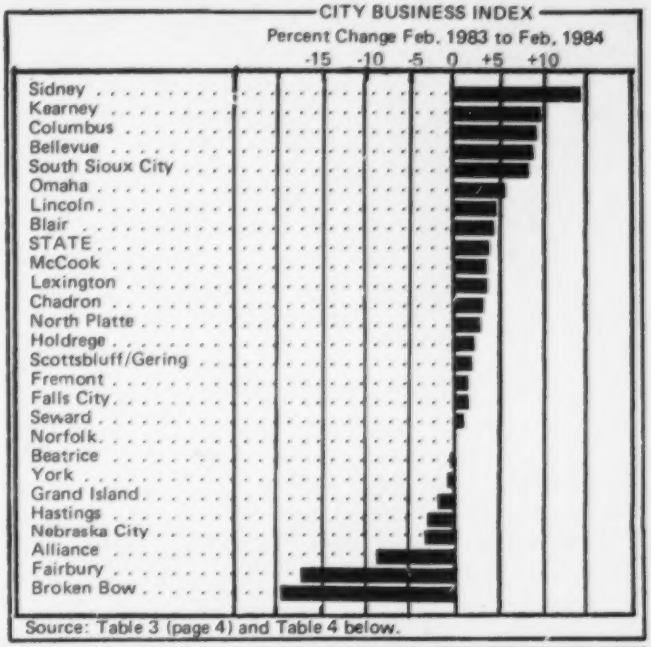


Source: Table 3 (page 4) and Table 4 below.

4. February 1984 — CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	101.4	139.9	100.4
Alliance	98.6	16.7	101.6
Beatrice	102.4	43.1	90.3
Bellevue	103.4	300.8	102.4
Blair	96.7	217.1	96.5
Broken Bow	88.6	19.9	103.2
Chadron	100.8	73.2	106.6
Columbus	109.0	108.3	94.6
Fairbury	102.2	27.9	96.0
Falls City	101.2	135.1	108.2
Fremont	99.6	86.5	108.1*
Grand Island	102.4	57.8	116.1
Hastings	99.6	59.8	103.5
Holdrege	94.1	249.6	95.6
Kearney	101.5	152.3	105.0
Lexington	102.0	134.7	116.1
Lincoln	101.6	117.2	101.5
McCook	92.6	123.0	102.0
Nebraska City	103.5	66.6	102.3
Norfolk	100.5	131.2	113.3
North Platte	102.5	143.3	110.8
Omaha	103.4	189.7	95.8
Scottsbluff/Gering	101.5	256.2	77.9
Seward	98.5	76.9	96.3
Sidney	100.8	194.0	112.6
So. Sioux City	100.8	197.3	99.2
York	98.6	108.2	95.4

[1] As a proxy for city employment, total employment for the county in which a city is located is used.

[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

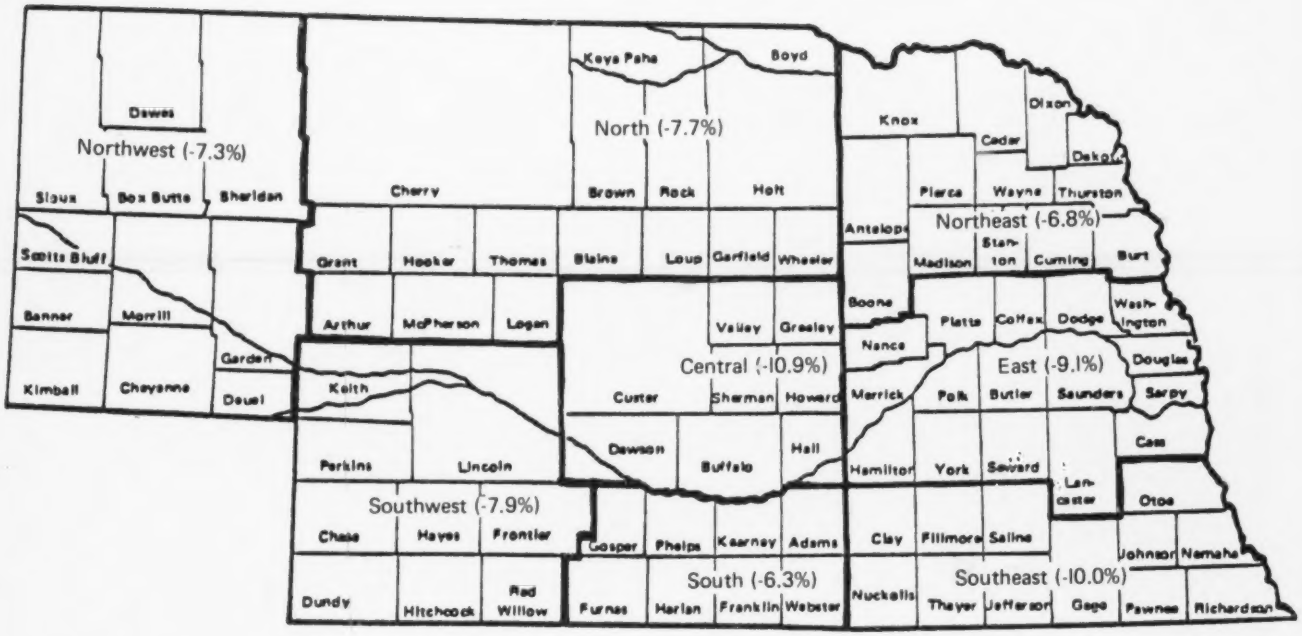
Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES

February 1984	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	306.0	104.4	104.2
Commodity component	278.3	104.3	104.0
Wholesale Prices	308.8	102.6	102.7
Agricultural Prices			
United States	263.0	109.1	110.9
Nebraska	260.0	105.3	107.2

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

Figure 2
Nebraska Crop Reporting Districts



(All Land Average Change, February I, 1983 to February I, 1984)

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